

KENTUCKY DEPARTMENT OF EDUCATION

STAFF NOTE

Review Item:

Audit Update and Review of the Commissioner's and Board's Expenses (Attachments under separate cover)

Applicable Statute(s) or Regulation(s):

KRS 45.149

History/Background:

Existing Policy. At the December 2008 KBE meeting, a staff note was presented to the KBE Audit Committee resulting in discussion and action items to consider and approve. Several audits have been completed, or are currently in process since that time. These audits are conducted by the Office of the Auditor of Public Accounts ("APA") as part of their normal statutory functions. KDE staff and representatives from the APA office will be present at the Audit Committee's meeting to discuss the audits described below and answer the committee's questions. Additionally, as is customary during this committee meeting, information on the commissioner's expenses and board's expenses will be presented.

The Internal Audit Charter authorizes the use of the APA to fulfill the internal audit role of KDE.

Audit Reporting Changes

To meet reporting requirements of new auditing standards (SAS 103), the APA now issues the annual Statewide Single Audit of Kentucky (SSWAK) report in 2 volumes. SSWAK – Volume I contains audit findings and financial information from our audit of the Commonwealth's Comprehensive Annual Financial Report (CAFR). And, SSWAK – Volume II presents findings resulting from the audit of federal programs as required by OMB Circular A-133. The current work on these audits is addressed below.

Update on audits since December 2008

The APA audits performed at the request of the Kentucky Department of Education are as follows:

Performance Audit of State Assessment Testing Costs -

The APA's Performance Audit Division is currently performing an audit of state assessment testing contracts. This audit encompasses FY2007 & FY2008. The APA's anticipated date for completed of this audit 12/31/2008, and the report release date was January 13, 2009. The released report included KDE's written response. This audit was requested by the Government Contract Review Subcommittee. Staff for the APA's office presented the audit findings at the January 13, 2009, Subcommittee hearing. KDE staff will present KDE's response to the

Subcommittee at a future date. A copy of the final report and responses will be provided under separate cover.

Federal Health Insurance Reimbursement -

The APA was engaged to assist KDE in ensuring that procedures are in place over district reimbursements to KDE of insurance expenses from federal grants for federally paid district employees. As part of the engagement, Auditors documented procedures established and used to verify that federal programs were charged accurately for health insurance expenses; determined the federal programs that were charged; visited a sample of districts and documented procedures used to calculate the amount to be paid to KDE; performed analytics to determine what has been remitted over the last three years and the reasoning for any variances in payments to KDE; and, determined if these expenditures are in the federal reimbursement requests. The fieldwork associated with this engagement is complete. Auditors have summarized the results and are currently assimilating the report. This report will not be available for review by the Board in time for the February meeting.

APA statewide audits that included a review of the Department of Education included:

SEEK Transportation Study -

The APA audits SEEK General Fund expenditures as part of its annual financial audit at KDE. KDE engaged the APA to perform specific agreed upon procedures to further analyze SEEK transportation expenses from a sample of districts; review laws and regulations governing the transportation component of the SEEK calculation; review the calculation used to determine the transportation allotment for a sample of districts; and, visit a sample of districts and document procedures used to track transportation expenses. The fieldwork associated with this engagement is complete. Auditors have summarized their results and submitted a draft report to the Office of District Support Services in December. This draft is currently under review by staff and may be available for the February meeting.

FY2008 Statewide Single Audit -

The annual SSWAK audit for FY2008 is currently in progress at KDE. The scope of the FY2008 Phase I financial audit at KDE includes SEEK - General Fund expenditures, Federal Fund expenditures, Federal Fund receipts, and the schedule of expenditures of federal awards (SEFA), and follow-up on all prior year audit findings issued in the FY2007 audit. The scope of the FY2008 Phase II compliance audit at KDE includes the following federal awards programs: Improving Teacher Quality and the Child Nutrition programs. This section of the audit is still ongoing. The expected completion date is not yet know.

The FY2008 Information Technology (IT) audit was recently completed and disclosed 17 formal comments concerning the program modification process, logical and LAN security, segregation of duties/controls, policies and procedures over IT governance, processing of contract payments, contract oversight, and disaster recovery. The results of the FY2008 KDE audit will be reported in the SSWAK report and in a separate agency management letter. A draft report was submitted to KDE in December and staff has responded to the findings. A final report may not be received by the date of the February meeting.

Impact on Getting to Proficiency:

Efficient and effective financial controls within the Kentucky Department of Education are essential to ensure that monies are used appropriately by KDE and by districts for the purpose of supporting schools and districts in reaching proficiency.

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Deputy Commissioner

Interim Commissioner of Education

Date:

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